



1 **Q. Please state your name and business address.**

2 A. Julie E. Covert, 290 West Nationwide Blvd, Columbus, Ohio 43215.

3 **Q. Are you the same Julie E. Covert who submitted Direct and**  
4 **Supplemental Testimony in this proceeding?**

5 A. Yes.

6 **Q. What is the purpose of your Rebuttal testimony?**

7 A. The purpose of my testimony is to respond to portions of the direct testimony of  
8 Witness Dante Mugrace, filed on behalf of the Office of Consumer Advocate (“OCA”)  
9 and Witness Ethan Cline, filed on behalf of the Bureau of Investigation and  
10 Enforcement (“I&E”).

11 **Q. What matters will you address in your rebuttal testimony?**

12 A. I will address the following matters:

- 13 • Use of the Fully Projected Future Test Year (“FPFTY”)

14 **SECTION I – Use of the FPFTY**

15 **Q. Please summarize other parties’ calculation of rate base.**

16 A. Mr. Mugrace calculates the major components of rate base by taking the Company’s  
17 FTY balance at November 31, 2018 and FPFTY balance at December 31, 2019 to  
18 arrive at an average FPFTY.<sup>1</sup> Mr. Cline calculates the major components of rate base  
19 using the same methodology.<sup>2</sup>

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<sup>1</sup> See direct testimony of OCA witness Mugrace, OCA Statement No. 1, pages 7-8.

<sup>2</sup> See direct testimony of I&E witness Cline, I&E Statement No. 3, pages 14-15.

1 **Q. Do you agree with the methodology of an average FPFTY rate base?**

2 **A.** No, I disagree with Mr. Mugrace and Mr. Cline's opinion that year-end rate base  
3 within the context of a FPFTY is inappropriate. Act 11 of 2012 allows for the use of a  
4 FPFTY. The FPFTY is defined as the 12-month period that begins with the first  
5 month that the new rates will be placed into effect, after application of the full  
6 suspension period permitted under Section 1308(d).<sup>3</sup> This approach reduces the  
7 risks associated with regulatory lag because the new rates will be consistent with the  
8 test year used to establish those rates for at least the first year. Nothing in Act 11 of  
9 2012 requires the use of an average rate base. In fact, I am advised that Act 11 allows  
10 plant projected to be in service at any point during the FPFTY to be included in rate  
11 base. Mr. Mugrace's and Mr. Cline's approach does not include all plant to be  
12 installed in the FPFTY to be included in rate base.

13 I am advised that prior to the adoption of Act 11, the Commission allowed  
14 utilities to include certain non-revenue producing, non-expense reducing  
15 construction work in progress to be included in rate base. The interpretation offered  
16 by witnesses Cline and Mugrace produces an outcome that is not substantially  
17 different from that prior approach.

18 Additionally, I do not agree that using an average rate base more accurately  
19 reflects the period during which rates set in this proceeding will be in effect. Either  
20 the rates will be in effect for longer than the FPFTY or the cost to serve customers will

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<sup>3</sup> See Pa. C.S. § 315(e)

1 increase enough to warrant another rate case. In either case costs will exceed the  
2 average cost after mid-year of the FPFTY.

3 Finally, the use of an average plant in service complicates the alignment of  
4 costs and revenues. For example, the Company's annualized revenue will need to be  
5 reduced to correspond with an average FPFTY rate base. Company witness Mays will  
6 explain in more detail in Columbia Statement No. 3-R. The usual ratemaking  
7 practice of annualizing revenues and expenses, used with a terminal rate base, avoids  
8 this complication.

9 **Q. What other evidence supports your conclusion that a year-end rate base**  
10 **is appropriate?**

11 A. Former Commissioner James H. Cawley and Commissioner Norman J. Kennard  
12 have authored *A Guide to Utility Ratemaking*, which instructs that a FPFTY allows  
13 rates to more closely reflect utility operating factors and general economic conditions  
14 during the rating period.<sup>4</sup> Mr. Cawley and Mr. Kennard do not state that an average  
15 rate base is required when using a FPFTY.

16 **Q. Has the Company's presentation of its revenue requirement for the**  
17 **FPFTY varied from its presentation in prior future test year cases?**

18 A. No, the Company has used the same techniques of determining revenues, expenses  
19 and rate base on an annualized, year-end basis that have been used in prior cases  
20 both before and after adoption of Act 11. As in its 2012, 2014, 2015 and 2016 base

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<sup>4</sup> See *A Guide to Utility Ratemaking* by James H. Cawley and Norman J. Kennard, p. 87

1 rate cases, the Company has not included any claim for construction work in progress  
2 in rate base.

3 **Q. Is there another concern with Mr. Mugrace and Mr. Cline's proposal to**  
4 **use an average to establish the FPFTY plant?**

5 A. Yes, Mr. Mugrace and Mr. Cline's proposal would affect the Distribution System  
6 Improvement Charge ("DSIC") calculation. I am advised by counsel that Section  
7 1358(b) of the Public Utility Code provides that the DSIC is set to zero as of the  
8 effective date of new base rates that provide prospective recovery of annual costs of  
9 DSIC eligible plant, and that the DSIC only becomes available to recover the fixed  
10 costs of new DSIC eligible property not previously reflected in the utility's rate base.  
11 The effective date of the DSIC under Section 1358(b) clearly contemplates that the  
12 DSIC will become effective once the rate base claimed in a FPFTY has been reflected  
13 in base rates. An average rate base approach would mean that the DSIC charge  
14 should be permitted to become effective during the FPFTY, as only a portion of  
15 FPFTY plant is included in rate base under Mr. Mugrace and Mr. Cline's proposal.  
16 With the DSIC being unable to support even one year's worth of eligible plant  
17 additions, as explained by Columbia Witness Krajovic, it will become even less of a  
18 useful tool for extending the time between base rate cases.

19 **Q. Can you summarize your assessment of the other parties' position on the**  
20 **use of a FPFTY?**

21 A. Yes, the Company submits that there is no support for the arguments that anything

1 other than a year-end rate base associated with the use of a FPFTY are required by  
2 the provisions of Act 11 or by the Commission under current regulations.

3 **Q. Do you agree with Mr. Cline's or Mr. Mugrace's calculation of an average**  
4 **FPFTY rate base?**

5 A. Columbia does not agree with the average rate base concept. However, even if this  
6 methodology were accepted, I do not agree with their calculation of an average  
7 FPFTY rate base. Both parties incorrectly calculated an average FPFTY using  
8 balances at November 30, 2018 and December 31, 2019 for the major components of  
9 rate base when they should have used balances at December 31, 2018 and December  
10 31, 2019 to calculate the average FPFTY rate base. There should be little argument  
11 that plant placed in service in the month of December 31, 2018 should be included in  
12 rates that bill customers during the FPFTY January – December 2019.

13 **Q. Have you prepared a corrected calculation in response to Mr. Cline and**  
14 **Mr. Mugrace's incorrect calculation of rate base?**

15 A. Yes, please refer to Exhibit JEC-1R.

16 **Q. How does Exhibit JEC-1R differ from Mr. Cline's and Mr. Mugrace's**  
17 **calculation of rate base?**

18 A. Exhibit JEC-1R calculates an average rate base of \$1,792,670,631 by taking an  
19 average at December 31, 2018 and December 31, 2019. Mr. Cline calculates an  
20 average rate base of \$1,770,527,705 on I&E Exhibit No. 1, Schedule 1, Column H, Line  
21 25 by taking an average at November 30, 2018 and December 31, 2019. Mr. Mugrace

1 calculates an average rate base of \$1,770,443,177 using the same methodology  
2 supported on OCA Schedule DM-32. However, both JEC-1R and I&E Exhibit No. 1,  
3 Schedule 1 have been updated for actuals for materials and supplies, prepayments  
4 and customer deposits through April 30, 2018. Mr. Mugrace has not updated  
5 Schedule DM-32 for actuals through April 30, 2018.

6 **Q. What is the source for the pro forma balances at December 31, 2018?**

7 A. Please refer to the schedules of Exhibit 108 for the pro forma balances at December  
8 31, 2018. Updated depreciation has been provided by Witness Spanos. Deferred  
9 taxes have also been updated by Witness Fisher.

10 **Q. Did Mr. Mugrace make any other adjustments to rate base?**

11 A. Yes, Mr. Mugrace incorrectly removed inflation from material and supplies and  
12 prepayments. First, these costs are based on historical data that need to be adjusted  
13 for inflation to provide an appropriate projection of costs. For example, the  
14 Company has a materials and supplies balance at December 2014 of \$657,437  
15 compared to a balance of \$902,238 at December 2017. This represents an increase  
16 of 37%, which is partially due to inflation.

17 **Q. Does this complete your Prepared Rebuttal Testimony?**

18 A. Yes, it does.

Columbia Gas of Pennsylvania, Inc.  
Statement of Rate Base at Present Rates  
December 31, 2019

Line No.	Acct. No.	Description	Pro Forma December 31, 2018 (1) \$	Pro Forma December 31, 2019 (2) \$	Dec 18 - Dec 19 Average (3) \$
1		<b>Property Plant and Equipment</b>			
2	101, 106	Gas Plant in Service	2,483,448,471	2,741,791,737	2,612,620,104
3	107	Construction Work in Progress - In Service	0	0	0
4	117/191	Gas Stored Underground - Non-Current	3,794,693	3,794,693	3,794,693
5	108-111	Depreciation Reserve	(460,649,848)	(499,229,725)	(479,939,787)
6	117	Accum. Provision Gas Lost - Underground Storage	(163,467)	(163,467)	(163,467)
7		Net Plant in Service	2,026,429,849	2,246,193,238	2,136,311,544
8		<b>Working Capital</b>			
9	154-163-186	1\ Materials and Supplies - 13 Month Average	856,452	875,924	866,188
10	165	1\ Prepayments	2,285,581	3,085,965	2,685,773
11	164/242	Gas Storage Underground	50,643,606	50,432,424	50,538,015
12		Cash Allowance	0	0	0
13		Total Working Capital	53,785,639	54,394,313	54,089,976
14		<b>Deferred Income Taxes</b>			
15	190	Income Taxes	80,089,843	79,055,237	79,572,540
16	282	Depreciation	(454,229,636)	(460,787,161)	(457,508,399)
17	283	Other	0	0	0
18		Total Deferred Income Taxes	(374,139,793)	(381,731,924)	(377,935,859)
19		<b>Customer Deposits</b>			
20	235	1\ 13 Month Average	(2,868,990)	(2,838,227)	(2,853,609)
21		<b>Customer Advances for Construction</b>			
22	252	Cash Deposits	2,552	2,552	2,552
23		<b>Total Rate Base - Original Filing</b>	1,703,209,257	1,916,019,952	1,809,614,605
24		Regulatory Liability - Tax Reform, NJDK-S4	16,943,974	16,943,974	16,943,974
25		<b>Total Rate Base - Supplemental Filing</b>	<u>1,686,265,283</u>	<u>1,899,075,978</u>	<u>1,792,670,631</u>

1\ Updated for actuals through April 2018.